VZCZCXRO3834
RR RUEHROV
DE RUEHDS #1299 1350837
ZNR UUUUU ZZH
R 140837Z MAY 08
FM AMEMBASSY ADDIS ABABA
TO RUEHC/SECSTATE WASHDC 0577
INFO RUCNIAD/IGAD COLLECTIVE

UNCLAS ADDIS ABABA 001299

SIPDIS
DEPARTMENT PASS TO USTR - BILL JACKSON, CECILIA KLEIN, AND BARBARA GRYNIEWICZ

E.O. 12958: N/A
TAGS: ECON ETRD EINV EAGR ET EEB

SUBJECT: EXCEPTIONAL ISSUANCE OF IMPORT LICENSES TO CHINESE FIRMS

SUMMARY
¶1. The influence of the Chinese Government on Ethiopian economic sectors continues to gain traction. The Ethiopian Council of Ministers recently approved an exception to issued licenses previously reserved for domestic investors to two Chinese government firms to import and distribute heavy construction machinery to Ethiopia. This exemption raises questions about Ethiopia's commitment to liberalizing its trade regime and treating trading partners equitably just as the country readies to commence consultations on WTO accession. End Summary.

BACKGROUND

¶2. Investment proclamation No.37/1996 separates investors into two categories: domestic and foreign. Domestic investors are Ethiopian nationals or foreign nationals permanently residing in Ethiopia (i.e. the 2nd and 3rd generation of Greeks, Armenians, Italians and Yemenis in Ethiopia) who have made investments in-country. By contrast, foreign investors are foreign nationals or foreign enterprises owned by foreign nationals who have invested foreign capital in Ethiopia. An Ethiopian national may be considered to be both a domestic and foreign investor depending upon his or her citizenship, residence status and personal preference. Per the Ethiopian Government Council of Ministers Regulations No 35/1998 and 84/2003, a reenactment of Investment proclamation No. 280/2003, there are eighteen investment areas reserved for domestic investors and four reserved exclusively for Ethiopians. Retail trade and brokerage, whole sale trade, import trade, and printing are among the list of domestically reserved investments, while banking and insurance and broadcasting services belong to investment reserved for Ethiopian nationals exclusively.

¶3. Citing the shortage of construction materials and machinery, Ethiopia's Vice Minister for Urban Works and Development, Arkebe Equbay, announced on April 13th that the Council of Ministers, had approved and granted exceptional import licenses to two Chinese government owned companies, China Road and Bridge Corporation (CRBC) and China Geotechnical Overseas Company (CGC). These particular Chinese companies will be allowed to transport 100 units of loaders, 2,000 mini trucks and 100 stone crushers into the country. CRBC and CGC have been engaged in major construction jobs in Ethiopia, including Ring Road highway and the Gottera Overpass in both Addis Ababa and other regions. While the Investment Law reserves import trade for domestic investors - except for the importation of inputs for products intended for export - it allows the Council of Ministers to approve additional import licenses on an exceptional basis per article 5 of Proclamation No. 4/1995 and article 9 of the Investment Proclamation No. 37/1996. According to the Vice Minister, an exemption for the Chinese firms will allow them to sell the machinery in local currency without using Ethiopia's depleted foreign currency reserve.

QUESTIONS FOR WTO ACCESSION

¶4. The Council of Ministers decision may further exacerbate the extremely difficult environment in which foreign businesses operate. Pre-existing unfavorable operating conditions, such as high taxes, crushing bureaucracy, competing public and party-affiliated companies, disadvantage foreign companies. The exemption granted in this case creates an appearance of favoritism toward the Chinese. Such preference appears inconsistent with the general WTO principle of "Most Favored Nation," and highlights how American and other

foreign businesses are impeded by an un-level playing field. In light of the first round of "Working Party" consultations on Ethiopia's WTO accession bid - expected to begin in May - this step raises questions about Ethiopia's commitment to the reforms/ liberalization necessary for WTO accession. With an eye towards transparency, had Ethiopia been a WTO member, extension of liberalization privileges would come in the form of negotiated agreement. Under the MFN, preference given to one WTO member country would need to be extended to all WTO member countries. Embassy Addis has specifically raised this decision with USTR colleagues as a point for discussion as Working Party consultations proceed.

COMMENT

¶5. Although the Council of Ministers can exercise the authority to amend license issuance, these actions either call into question Ethiopia's commitment to adhere to WTO guiding principles or highlight the lack of senior Ethiopian government awareness of the country's obligations once it becomes a WTO member.. This current maneuver will also heavily affect local importers of machineries since access to payments in foreign currency to their foreign suppliers will be limited.

YAMAMOTO